UIA (Insurance) Limited

Annual Report and Financial Statements
for the year ended 31 December 2015

UIA (Insurance) Limited

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Company Secretary and Registered Office

Ben Terrett
UIA (Insurance) Limited
Kings Court
London Road
Stevenage
Herts
SG1 2TP

Advisors

Auditor

Deloitte LLP

Bankers

Unity Trust Bank plc

Investment Managers

Fiske plc
Royal London Asset Management Ltd
Rathbone Brothers PLC

STRATEGIC REPORT

Business model and strategy

Our mission is to be the first choice personal lines insurance provider to members of trade unions and like-minded members of the general public. In order to achieve this mission our desire is to remain an independent mutual that is financially strong and operating profitably. Our key measures of strength and profitability are our Solvency ratio and our Combined Operating Ratio and we aim to deliver these key targets primarily through the underwriting and administration of household insurance, supported by the sale of other complementary products. We also continue to underwrite legal expenses insurance, although this business is largely in run off. As a mutual, we have no shareholders to pay and we are thus able to generate long term value to our policyholders. We aim to do this through a combination of excellent customer service, competitive premiums and the prompt payment of all valid claims.

Our strategy is dual focussed.

Firstly, to continue extensive engagement with members of our key business partners (the trade unions) through a number of different communication channels, including direct mail, digital, magazines, conferences and face to face contact with key branch, regional and national secretaries.

Secondly, to offer our products to like-minded members of the general public through our Together Mutual Insurance brand, largely through digital routes.

We are solely UK based with a call centre encompassing the entire operation from sales and policy administration to claims handling and payment in Stevenage and an out of hours 24/7 claims service operating from Cardiff.

Review of the business

The results of the Group for the year ended 31 December 2015 are set out on pages 27 to 28 and the balance sheet position at the year-end is set out on pages 30 to 31.

The Group, led by the performance of the parent company, UIA (Insurance) Limited, has had a satisfactory year, generating profits from underwriting, before deduction of exceptional items, of £1.033 million, net investment losses after corporate taxation of £0.078 million and a contribution from subsidiaries of £0.223 million. The results of the Group were impacted heavily by the flooding events of December as shown in the Loss Ratio chart below. As noted below, we have also written off technology development expenditure of £0.269 million as a major project to replace our core IT system came to a close on 31 March 2015. After deducting the exceptional item the net underwriting profits are £0.764 million. Of the net underwriting profits, £0.582 million (2014: £0.724 million) was derived from household underwriting and £0.182 million (2014: £0.167 million) from legal expenses underwriting.

Exceptional item
As noted in the 2014 annual report, during the early part of 2015 the Board took the decision to terminate the IT project and to re-evaluate our core requirements. The 2015 costs associated with terminating the project amounted to an additional £0.269 million.

At the end of the year, the Group had total assets amounting to £79.093 million (2014: £81.562 million) of which £55.703 million (2014: £53.520 million) were investment fund assets. The reduction in total assets is due to the fall in legal expenses debtors as a result of this business being ostensibly in run off. In addition, we have a provision of £5.476 million (2014: £6.404 million) against our final salary pension scheme liability. The primary reason for this significant decrease is an increase in the Discount Rate (from 3.6% to 3.8%) used to value our liabilities under this scheme.

By the year end, the Group had £36.245 million (2014: £34.228 million) of retained profits, an increase of £2.017 million.

STRATEGIC REPORT (continued)

Key Performance Indicators (KPIs)

The Board consider that, in addition to the overall profits shown in the Review of the business above, the following metrics represent the key financial dynamics of the Group.

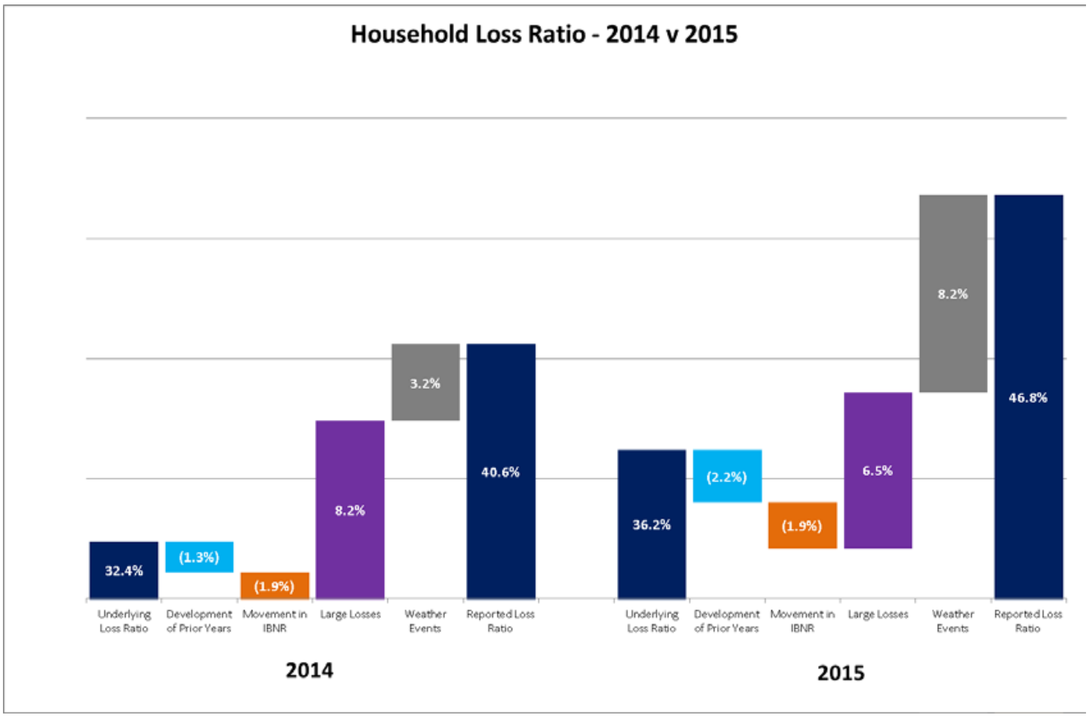
Key Performance Indicator	2015 Actual	2015 Budget	2014 Actual
Combined operating ratio	96%	99%	95%
Household loss ratio	47%	43%	41%
Underlying household expense ratio	44%	45%	34%
Retention rate	82%	77%	82%
Investment yield	0%	2%	2%
Return on capital employed	4%	4%	7%
Solvency I cover	188%	188%	185%

Combined Operating Ratio (COR) is a common measure for insurance companies and is calculated as Total Costs (Claims plus Commission and Expenses) divided by Net Earned Premium Income. Our long term target in respect of this measure is to operate in non-event years at between 92% and 98%. We have performed to target during 2015 despite the flooding events in December adding £1.5 million to our claims costs by the year end.

Our retention rate is also holding up well, despite intense competition from aggregator routes and the increasingly soft market.

Finally our solvency ratio has increased over the year as a result of the surplus, offset by a Board decision to seek enhanced returns form our investment portfolio. In the year we invested our Liquidity Fund into an equity based fund with Rathbone Bros plc which should enhance long term value for our policyholders.

The chart below shows how our underlying loss ratio is comprised. In last year's annual report we noted that ordinarily we would expect at least 5% of our loss ratio to be derived from flood claims, and the December flood events added 7% alone to our loss ratio.



STRATEGIC REPORT (continued)

Key Conduct Indicators

It is not sufficient, in a modern, forward thinking insurance company, to consider performance indicators alone. One of the ways in which we can differentiate ourselves as a mutual is to display those attributes that a customer centric organisation has at its heart. Those attributes of fairness, trust and community coupled with a high level service are key to what we do.

During 2015 we enhanced our monthly reporting in this area to show the trend on a month by month basis in order to properly assess which areas needed to be addressed by operational management.

The table below shows the position taken from the December 2015 monthly Management Information pack.

Conduct Risk Indicator	Management Information	Actual	Target	RAG Status
Service levels	Customer Services	82.1%	>80%	GREEN
	New business	88.5%	>80%	GREEN
	Claims Abandoned Calls (12 Month Rolling)	3.3%	<2%	AMBER
NTU	NTU rate from Finance	2.5%	<5%	GREEN
Declined claims	Percentage of claims declined	17.3%	<25%	GREEN
Customer satisfaction	Marketing HAWD	96.0%	>90%	GREEN
	Claims CSS	96.0%	>88%	GREEN
	Propensity to renew Claims CSS	100.0%	>90%	GREEN
Reportable complaints	Claims	12	<20	GREEN
	Customer Services	2	<5	GREEN

NTU – Not Taken Up – Policies cancelled during cooling off period
HAWD – How Are We Doing? – Questionnaire sent to members
CSS – Customer Satisfaction Score – Questionnaire sent to members after making a claim

Executive Pay

Members of the Senior Management Team (SMT) are rewarded for exceeding both performance and conduct risk indicators. The Long Term Incentive Plan (detail within the Directors' Remuneration Report) has been recalibrated during 2015 to ensure that the reward structure is tied into the long term viability of the business and also includes measures of customer satisfaction. The Nominations and Remuneration Committee agree the metrics at the start of the year and these measures have to be exceeded by a minimum of 5%, otherwise no bonus accrues.

Principal risks and uncertainties

The principal risks and uncertainties facing the business are reviewed regularly by the Board and are outlined below.

Risk heading	Risk description	Controls/actions
Governance – Inappropriate strategic direction	Failure to identify opportunities and negate threats	The Board monitors and evaluates business performance at regular intervals and formally through 6 Board meetings per annum, in addition to 2 formal strategy sessions. Business performance is reported monthly in the form of Management Information packs and KPIs are highlighted by a traffic light system, to indicate if the business is on track, exceeding or falling short of the objectives set

STRATEGIC REPORT (continued)

Risk heading	Risk Description	Controls/actions
Insurance – Risks to profitability of the risks underwritten	Significant increase in claims frequency and severity	Risk pricing is met through reinsurance, underwriting and claims controls and ensuring that we are adequately reserved at all times. Root and branch reviews of risk accumulations regularly take place within the Pricing and Actuarial Function. In addition Board has oversight through the review of MI and the production of a Claims/Premium Index chart on a quarterly basis
Market risk – Risks from fluctuations in the value of assets	Loss in market value of investments	Assets are diversified by type and class and Values at Risk are measured on a monthly basis. Daily monitoring of prices by the Finance Director and regular meetings with investment fund managers
Pension – Inability of Board to take action to control the growth in the pension scheme deficit	Triennial valuation has recently taken place with an overall deficit of £123 million, of which UIA's share is approximately 4.5%	We have recognised a provision of £5.5 million on our Balance Sheet and also hold an additional £2 million in our Solvency Capital Requirement (SCR) calculation. We have a Working Group of the Board set up to address this issue

Future development

Our aim is to grow the business so that we can continue to offer our members competitive household and other quality insurance products in the long term. We operate in a fiercely competitive market place where there is increasing commoditisation and homogenisation. Therefore, to ensure that the business is sustainable, and that we have a point of differentiation in a crowded market, the organisation is positioned to not only offer our customers competitive premiums but to treat them as members of a community built on fairness, trust and the high level of service they demand from us.

In order to achieve this we have embarked on strategic partnerships in early 2016, most notably with Bought By Many, who have identified a key market opportunity with "insurance made social", building upon communities who have similar interests through social media. We firmly believe that this ethos translates well into UIA and we have many synergies that match our companies well.

In 2016 we will begin to report formally to the regulator under the new regime of Solvency II. This is a European wide insurance directive designed to harmonise the insurance industry. It's been a long time in the making but UIA is well equipped to deal with the requirements across all three "Pillars" of Governance, Capital Requirements and Reporting.

We recognise that UIA has to be capable of not only meeting members' requirements now but meeting their future needs as well. We therefore continue to invest in product enhancements and in the skills of our staff and operational capability to ensure that UIA prospers as a modern, independent mutual insurance company.

Ben Terrett
Finance Director
16 March 2016

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 31 December 2015.

Strategic report

The principal activity of the Company is the transaction of general insurance business. A review of the year and future developments of the group are contained within the Strategic Report.

Distribution

The directors do not recommend the payment of a distribution for 2015 (2014: nil).

Directors

The following directors held office throughout the year, except as noted below:

Bob Abberley	
Ian Cracknell	Resigned 18 December 2015
Peter Dodd	
Mike Hayes *	Resigned 14 March 2016
Lucia McKeever	
Eithne McManus	
Marion Saunders	
Eleanor Smith	
Ben Terrett	
Andrew Wainwright-Brown	
Tony Woodley	

* Mike Hayes was the Chairperson throughout 2015 and until 14 March 2016.

Statement as to disclosure of information to auditor

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing their report, of which the auditor is unaware. Having made enquiries of fellow Directors and the Company's auditor, each Director has taken all the steps that he/she is obliged to take as a Director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

By order of the Board

Ben Terrett
Company Secretary
16 March 2016

CORPORATE GOVERNANCE REPORT

Board of Directors

Jon Craven Interim Chief Executive Officer

Jon was appointed Interim CEO after the end of the financial year, commencing employment on 2 February 2016. He has extensive experience within the financial services sector and has specific skills in the initiation and delivery of major strategic and profitable partnerships in banking, insurance and healthcare. Prior to joining UIA, he operated as a business consultant to Simply Health.

Ben Terrett BA FCA Cert CII Finance Director

Ben was appointed Finance Director in 2012. and is a Fellow of the Institute of Chartered Accountants in England and Wales, having qualified as a Chartered Accountant in 1998. He worked in general practice until 2004, when he began contracting as an Internal Auditor for the Audit Commission. Ben joined the UIA Group in February 2005, when he set up the Internal Audit function.

Ben is also a director of UIA (Insurance Services) Ltd; is the Company Secretary and has responsibility for Compliance Oversight.

Chris McElligott BA (Hons), MCIM, MIDM Marketing Director

Chris was appointed Marketing Director on 20 January 2016, having joined the Company as Head of Marketing in July 2012.

Chris is a senior marketer and has spent over 20 years working for and developing a number of high profile brands in the UK ranging from Fast Moving Consumer Goods (FMCG) to Financial Services. Chris' career started in direct marketing, and he is now highly experienced in digital marketing and the applications of social media. He has professional marketing qualifications and remains a lifelong student, and a long serving member of the Institute of Direct and Digital Marketing.

Bob Abberley Non-Executive Director

Bob has been on the Board since June 2014. Bob was previously Assistant General Secretary for UNISON, with responsibilities ranging from inter-union relationships, industrial action strategies and pension governance.

Bob is a member of both UNISON and Unite trade unions and has been a UIA policyholder for over 15 years.

Peter Dodd Non-Executive Director – Independent

Peter was appointed a non-executive director in 2009. He is chair of the Nominations and Remuneration Committee.

Peter worked for the Post Office for 23 years and then for the Communication Workers Union (CWU) for 10 years. He held positions within the CWU from 1976 to 2007. He is a director of the Mechanics Centre Ltd, an Employment Tribunal Member, a lay member of the National Institute for Health Research and a governor of the Central Manchester & University Hospitals Foundation Trust, where he chairs the Patient Experience Committee.

CORPORATE GOVERNANCE REPORT (continued)

Lucia McKeever Non-Executive Director – UNISON Representative

Lucia has been on the Board since January 2014 and is a past President of UNISON. Lucia is a champion of equality and human rights, and became active in the trade union movement more than 20 years ago.

Eithne McManus BA FIA Non-Executive Director – Independent

Eithne has been on the Board since November 2014 and currently chairs the Audit Committee.

She is a Fellow of the Institute of Actuaries and a Chartered Enterprise Risk Actuary. Eithne was previously Chief Executive and Chief Financial Officer of City of Westminster Assurance, and a director of Countrywide Assured. She currently acts as a consultant and trainer to financial services companies.

Marion Saunders Non-Executive Director – Independent

Marion was appointed a non-executive director in 2010.

Marion is currently the Senior Independent Director and Deputy Chair of the NHS Norfolk and Suffolk Foundation Trust, a member of the Information Rights Tribunal and the Conduct and Competency Committee of the Nursing & Midwifery Council. She has been a lay member of the Chartered Insurance Institute Council and chaired adult and children safeguarding boards. Marion chaired a Primary Care Trust for seven years following 25 years in local government where she held branch officer posts within NALGO. Marion is a retired UNISON member.

Eleanor Smith Non-Executive Director – UNISON Representative

Eleanor was appointed to the Board in 2012. She is a qualified and registered Nurse and is employed by the Birmingham Women's Healthcare Trust. She was recently appointed staff nurse governor of her trust. Eleanor is a past President of UNISON and still maintains an active role as UNISON Branch Secretary whilst acting as the Staff side Lead Negotiator for the Healthcare Trust. Eleanor had been a School Governors Chair for twelve years and has been in the past Constituency Secretary for her Local Labour Party.

Andrew Wainwright-Brown ACIS FCII Non-Executive Director
Senior Independent Director

Andrew was appointed to the Board in 2010. He chairs the Risk Committee and as Senior Independent Director attends all other committees. He is an Associate of the Institute of Chartered Secretaries and Administrators and a Fellow of the Chartered Insurance Institute.

In 2008, Andrew retired from the position of Deputy Managing Director & C.O.O. of British Marine (a subsidiary of QBE) after a 28-year career in the insurance industry during which he held senior executive and finance positions with a number of major insurers.

Andrew is also a member nominated Trustee of the N W Pension Plan (1977).

CORPORATE GOVERNANCE REPORT (continued)

Tony Woodley Non-Executive Director – Unite Representative

Tony was appointed to the UIA Board in February 2014 and is the representative for Unite, galvanising UIA's tie in to the trade union. Tony has extensive experience within the union movement and was instrumental in the formation of Unite, at the forefront of negotiations with his union (TGWU) and Amicus.

Tony is still heavily involved in the automotive industry and is a member of the influential Automotive Council UK, a government body designed to improve inward investment and create jobs in the UK.

CORPORATE GOVERNANCE REPORT (continued)

The Board supports the principles of good corporate governance and is committed to maintaining a high standard of compliance with the Annotated Combined Code, published by the Association of Financial Mutuals, in the best interests of its members.

Statement of Compliance with the Annotated Combined Code

The Board considers that throughout the year ended 31 December 2015, UIA has applied the relevant principles and complied with the relevant provisions of the annotated Combined Code for Mutual Insurers issued by the Association of Financial Mutuals unless otherwise noted below.

Chairperson A.3.1
The Chairperson, Mike Hayes, on appointment, did not meet the independence criteria set out in the Code. This is because Mike used to sit on the National Executive Committee (NEC) of a partner trade union and was a key decision maker in that organisation.

Independent Non-Executive Directors B.1.2
Throughout the year under review, the Company had 11 directors including the Chairperson. Of the remaining 10 directors, 4 are independent.

Directors' annual election B.7.1
In the year under review 2 Executive Directors were not subject to re-election in accordance with the Code. This will be remedied at the 2016 AGM.

Role of the Board

The role of the Board is to set and manage the strategy for UIA (Insurance) Ltd ('UIA') in a manner that upholds the vision of the organisation. In addition, to deliver the maximum value to the company for the benefit of its members, whilst complying with the relevant regulatory requirements, the Company's Rules and the highest corporate governance standards.

The Board usually has six regular formal meetings in a year but other meetings are convened as required to allow the Board to review the Company's strategy and to agree the plans and budget for the forthcoming year.

The Statement of the Board's Reserved Powers is set out in the Company's Charter and relate in the main to factors affecting the long term strategy of the Company, while day-to-day decisions are delegated to Executive Directors. These powers are set out below.

Board's Reserved Powers

The Board reserves itself to decisions that determine:

- The long term prosperity, viability, security and reputation of the Company
- Policies governing the way the Company is perceived and treats others
- Relations with stakeholders
- Policies covering material financial matters and commitments, statutory obligations, compliance, probity and ethical matters
- Matters concerning the board and senior management
- Authority levels

Specifically, the Board is responsible for considering, reviewing and agreeing the following:

- **Strategic and financial matters**
- The company's purpose, mission, vision, goals and objectives
- Strategies and strategic plans
- Annual budgets

CORPORATE GOVERNANCE REPORT (continued)

- Performance against budgets and plans
- Matters that would have a material effect on the company's financial position, liabilities, future strategy or reputation
- Major capital projects
- Capital expenditure in excess of budget
- Significant changes in accounting, risk management, capital and treasury policies and practices
- Significant changes to the company's financial and management control systems
- Contracts not in the ordinary course of business and material contracts in the ordinary course of business
- Treasury policy including foreign exchange exposure
- Major acquisitions or disposals

- **Matters relating to members**
- Changes to memorandum and articles of association and rules
- Remuneration of auditors
- Reappointment or change of auditors
- Auditors' engagement letter and audit scope memorandum
- Auditors' summary letter of recommendations
- Interim and final financial statements
- Notices and circulars to members except those of a routine nature
- Approval of press releases concerning matters decided by the board

- **Board and senior executive matters**
- Appointment and removal of directors and company secretary
- Powers, roles and duties delegated to individual directors including the Chairperson, CEO and Finance Director
- Remuneration and terms of appointment of directors and senior executives, including bonus arrangements, pensions and contracts of employment
- Terms of reference and membership of board committees
- Material changes in pension scheme rules
- Liability insurance arrangements for directors and officers of the company

- **Principles**
- Compliance with contracts, laws, statutory obligations and regulations
- Compliance with company policies on probity and ethics

Insurance

The Company maintains a Directors and Officers Insurance policy covering the threat of legal actions against the directors.

Chairperson and Chief Executive Officer (CEO)

The roles of Chairperson and CEO remained separate throughout the year and their respective responsibilities have been agreed by the Board. The Chairperson's main responsibility is to lead and manage the work of the Board, to ensure it operates effectively, fully managing its responsibilities and ensuring the effective engagement and contribution of all Directors. The Chairperson encourages and promotes a culture of openness and debate by facilitating the effective contribution of Non-Executive Directors in particular and ensuring constructive relations between Executive and Non-Executive Directors. Responsibility for the day to day management of UIA is delegated to the CEO, supported by the Finance Director and Marketing Director.

CORPORATE GOVERNANCE REPORT (continued)

Non-Executive Directors

During the year, the Board was comprised of the Non-Executive Chairperson plus eight Non-Executive and two Executive Directors.

The Company has four Non-Executive Directors who fall within the definition of independence as outlined in the Annotated Combined Code.

The Board believes that it functions effectively and efficiently and is of an appropriate size to provide a balance of skills and experience, manage conflicts of interest and allow changes in composition without undue disruption. It also believes that it was able to provide leadership and give direction without any imbalance that may have allowed one individual or group to dominate decision making.

The Board regularly reviews its own balance, diversity, and effectiveness to meet the Company's requirements and business strategy.

The Board has appointed a Senior Independent Director, as required by the Code, to provide an alternative point of contact to the Chairperson, CEO and Finance Director for members who have concerns that cannot be addressed through the normal channels. The Senior Independent Director also leads the appraisal of the Chairperson and the Board. During the year the Chairperson and the Senior Independent Director met with all Non-Executive Directors without the Executive Directors being present.

Board Appointments and Re-Election

All Board appointments are subject to a rigorous process instigated by the Nominations and Remuneration Committee, and ratified by the Board.

All Non-Executive Directors receive a full, formal and tailored induction on joining the Board.

All Directors are subject to election by the members at the Annual General Meeting following their appointment. They are required to seek re-election every three years following their first election. Before appointing a new Director they are required to provide details of their current other commitments for review to ensure that they can carry out their role effectively and efficiently. In addition, all Directors are required to meet the approval of the Prudential Regulation Authority and Financial Conduct Authority before they can operate as a Director.

Performance evaluation

During the year individual directors were subjected to performance reviews, completed by either the Chairperson or the Senior Independent Director and tailored training and development plans were formulated both individually and collectively.

During the year we also completed a review of Board Effectiveness which incorporated a review of documentation, observation of the May 2015 Board meeting and a consideration of practices in other firms of a similar scale, nature and complexity. The contents of the review were considered by the Board at a meeting in July 2015 and a formal response provided to the September 2015 Board meeting.

In September 2015 the Chairperson held a meeting with Non-Executive Directors in order to assess the performance of, and the relationship with, the Executive Directors. Also in September 2015, the Senior Independent Director chaired a meeting with all of the other Directors in order appraise the performance of the Chairperson and his relationship with his fellow Directors.

CORPORATE GOVERNANCE REPORT (continued)

Information and support

All Directors are authorised to seek, at the Company's expense, appropriate professional advice which enables proper discharge of their collective responsibilities. In addition the Company Secretary is available at all times for support and advice.

Duty to prepare accounts

The Directors acknowledge their responsibilities for preparing accounts and a full statement of Directors' Responsibilities is set out on page 21. These narrative statements, together with the Consolidated Statement of Profit and Loss, the Consolidated Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, the Consolidated Cashflow Statement and notes to the accounts, provide relevant and proportionate detail to our members in order for them to assess business performance and business strategy. The Directors also consider that this annual report and accounts together, taken as a whole, represent a fair, balanced and understandable view of the business at the present time and provides the information necessary for a proper assessment of the performance of the Company.

Going Concern and future viability

The Strategic Report provides an overview of business performance, together with the Company's Key Performance Indicators in respect of the year ended 31 December 2015. The Strategic Report also provides detail with regard to the Directors' assessment of the major risks and uncertainties facing the business in the future.

We have adopted the going concern basis in respect of the preparation of the accounts in respect of the year ended 31 December 2015 as we have adequate financial resources in order to meet our liabilities as they fall due. As stated in the Strategic Report, we have total assets of £79.093 million and investment assets of £55.703 million and our statutory solvency margin is currently 165% under Solvency I. As part of the Solvency II regime, our margin of solvency over a one year time horizon is 199%.

As described in the Strategic Report, we have considered the principal risks and uncertainties facing the Company, including those that impact the Company's solvency, liquidity and profitability, as shown in the Company's Risk Register. At the Audit Committee meeting in January 2016, we carried out an assessment of the appropriate period to consider the Company's viability was carried out and the Committee recommended to the Board that a period of three years was appropriate as this tied in with the Company's solvency forecasts as adopted through the Own Risk and Solvency Assessment (ORSA) process. The Committee also considered whether the business planning period (10 years) was appropriate but rejected this approach as being too far into the future to reasonably project profitability, solvency and liquidity.

Having reviewed the business plans, including the Company's solvency, both on a Solvency I and Solvency II basis under normal and stressed conditions, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next three years.

Risk Management and Internal Controls

UIA is committed to the highest standards of risk management and internal control. The Board is accountable to the members of the Company for ensuring that an appropriate system of internal control is maintained, and for reviewing its effectiveness. Taking account of the limitations in any system of control, the system is designed to limit rather than eliminate the risk of failure and, as such, can only provide reasonable but not absolute assurance against material misstatement or loss.

CORPORATE GOVERNANCE REPORT (continued)

During 2015 and up to the date of approval of the annual report, UIA has operated a system of internal control which provides reasonable assurance of effective and efficient operations covering all controls including financial and operational controls, and compliance with laws and regulations.

Processes are in place for identifying, evaluating and managing on an ongoing basis through the systems of risk management and internal controls, the risks facing the Company and include:

- Board discussion and approval of the Company's strategic objectives and plans, and the risks to achieving them
- Board review of performance and approval of budgets
- Regular reviews by management of the risks to achieving objectives and actions being taken to mitigate them
- Review by the Risk Committee of any incidents of fraud, suspected fraud, material error or misstatement, and the controls in place to protect the Company against this risk
- Regular reviews by the Audit Committee of the scope and results of internal audit and compliance work, and of the implementation of recommendations
- Audit Committee reviews of the scope of work undertaken by the external auditors and any significant issues arising from them
- Audit Committee reviews of accounting policies and levels of delegated authorities
- Board consideration of the key risks facing the Company, as documented in the Risk Register, and of the effectiveness of the controls in place to mitigate their impacts.

The internal control system is monitored and supported by the Internal Audit function that reports to the Audit Committee on the Company's operations. During 2015, the information received and considered by the Audit Committee provided assurance that there were no material control failures and this is evidenced by the Annual Audit Opinion as provided to us by our outsourced Internal Audit Function, RSM.

The Board has put in place an organisational structure with formally defined roles and responsibilities. Operational responsibility rests with the CEO and devolves through the executive structure with clearly defined levels of authority. There are established procedures for planning, approval of capital expenditure, information and reporting systems, and for monitoring the Company's business and performance. These include:

- Governance framework including terms of reference for the Board and its committees
- A clear organisational structure
- Documented apportionment of responsibilities across the Company
- Processes for assessing the adequacy and effectiveness of internal controls and for ensuring that these remain appropriate to the scale and complexity of activities
- Detailed financial controls to safeguard assets from inappropriate use or loss
- Monthly monitoring of key performance indicators against plans for the year
- Detailed framework of operating policies and procedures including risk management and control standards
- Recruitment policies to select employees of the necessary calibre and experience to fulfil their responsibilities
- Clear roles and accountabilities with regular performance reviews
- Whistle blowing procedures to enable staff to raise concerns in confidence

The Board actively encourages a culture of continuous improvement to ensure systems of control are maintained.

As part of this process, managers of the operational areas and of each major project are required to identify the risks, the probability of their occurrence, the impact if they occur and the actions being taken to manage these impacts to the desired level. Managers are required to monitor and report on the key risks in their areas, highlighting whether these are stable, increasing or decreasing, as well as maintaining a risk log providing details of significant incidents and loss events. A consolidated report is submitted to every quarterly meeting of the Risk Committee providing an analysis of risks reported in the period, together with all changes to the Company risk register.

There are regular verbal reports to the Board on the effectiveness of the Company's risk management and internal control systems at Board meetings immediately following Committee meetings. These verbal updates are provided by the Chairs of the respective Committees and represent "real time" reports in advance of Committee meeting minutes being available, which are produced for subsequent Board meetings.

The Board confirms that there has been in place for the year under review an ongoing process for identifying, evaluating and managing the risks faced by the Company that are significant to the achievement of its business objectives.

In light of the above, the Board has made an assessment of the effectiveness of its system of governance, risk management and internal control and concluded that it is appropriate for its size and complexity and no significant weaknesses have been identified.

Internal Audit function

Article 47 of the Directive 2009/138/EC (The Solvency II Directive) states:

- Insurance and reinsurance undertakings shall provide for an effective internal audit function. The internal audit function shall include an evaluation of the adequacy and effectiveness of the internal control system and other elements of the system of governance.
- The internal audit function shall be objective and independent from operational functions.
- Any findings and recommendations of the internal audit function shall be reported to the administrative, management or supervisory body which shall determine what actions are to be taken with respect to each of the internal audit findings and recommendations and shall ensure that those actions are carried out.

During the year under review, our internal audit function was outsourced to Baker Tilly, who became RSM in October 2015.

Internal audit reviews concentrate on those areas, derived from the Company's Risk Register and through discussions with Senior Management, that are considered higher risk, but also those that are proportionate to the nature and scale of the Company's activities. Reporting lines are direct to the Chair of the Audit Committee, although day-to-day contact is maintained through the Finance Director.

Annual General Meeting

The Board believes that it is important to obtain the views of its members and understand any issues which may concern them. UIA gathers valuable feedback from members using questionnaires and surveys. The AGM is another opportunity for UIA to communicate with members. The Directors attend the AGM and members have the opportunity to ask questions during the meeting and to meet Directors following the conclusion of the formal part of the meeting.

At the 2015 AGM, a number of resolutions were voted on including:

- To receive the annual report of the Board, the auditors' report and the audited financial statements for the year ended 31 December 2014
- To approve the remuneration report for the year ended 31 December 2014

CORPORATE GOVERNANCE REPORT (continued)

- To authorise the Board to re-appoint Deloitte LLP as auditors for the Company and to agree that their remuneration be determined by the Board
- To re-elect Peter Dodd as a member of the Board
- To re-elect Mike Hayes as a member of the Board
- To re-elect Eithne McManus as a member of the Board, having been appointed by the directors since the 2014 AGM and pursuant to Rule 71 of the Company

Board Committees

The Board has established Committees to deal with certain functions in detail. The Terms of Reference of the committees are available on the Company website. Details of the Committees which comprise a majority of Non-Executive Directors are as follows:

Audit Committee

Eithne McManus (Chairperson)
Andrew Wainwright-Brown
Bob Abberley (to January 2015)
Marion Saunders
Peter Dodd
Tony Woodley

This Committee is scheduled to meet four times a year and also meets separately with the external audit partner in the absence of Executive Directors. It assists the Board in discharging its responsibilities for the integrity of the financial statements and for ensuring the effectiveness of systems of internal control. It assists the Board in providing leadership, direction and oversight with regard to the Company's governance and regulatory policies and procedures, including those relating to compliance, financial malpractice and internal non-financial controls.

All members of the Committee are Non-Executive Directors and at least one member of the Committee has recent and relevant financial experience.

The Committee is authorised to investigate any activity within its terms of reference. It monitors the integrity of the financial statements of the Company, reviewing the significant reporting judgements, in particular going concern, the adequacy of insurance technical provisions and the calculation and recognition of retirement benefit obligations contained in accounts. It reviews the Company's internal financial controls and the internal control and risk management systems. It monitors and reviews the effectiveness of the Company's internal audit function, reviews and approves the plan for the following year and discusses all findings and recommendations raised in respect of specific audits. It considers the appointment of and fees for external auditors, ensures that their objectivity and independence is safeguarded in respect of any non-audit services.

On 19 January 2016, the Committee carried out a review of its activities for the year and was able to confirm to the Board that it had discharged its responsibilities to the Board in respect of the year ended 31 December 2015.

The issues the Committee considered during the year under review were:

- An assessment of the significant estimates and judgements used by the directors in preparing the financial statements including technical provisions and the assumption of going concern
- The transition to the UK GAAP using FRS 102 and FRS 103
- An assessment of the valuation and assumptions used to determine the Pension Scheme liability
- Impairment of UIA (Call Centres) Limited within the Company's own Balance Sheet

CORPORATE GOVERNANCE REPORT (continued)

Our external audit partner, Deloitte has completed three years' service for us and during 2016 we will review the effectiveness of the audit approach and whether we need to consider a tender process.

During the year Deloitte has completed some other work for us and we receive regular reports as part of the external audit process as to whether independence has been breached. The Committee considers that the work completed by Deloitte does not impair independence.

Risk Committee

Andrew Wainwright-Brown (Chairperson)
Bob Abberley
Ian Cracknell (to December 2015)
Mike Hayes
Eleanor Smith
Ben Terrett
Eithne McManus

The Committee is scheduled to meet four times a year.

The Committee assists the Board in establishing, monitoring and amending the effectiveness and appropriateness of the Group's risk and management strategy and policies. At least once a year the Committee reviews the Risk Appetite and reports to the Board any recommendations including assessing the appropriateness of the Corporate Plan in the context of Risk Appetite. At each meeting it reviews the Risk Register to ensure that all material risks are included and assessed in accordance with the Risk Appetite and to ensure that for each risk a set of risk management processes and measures are in place to mitigate or minimise the impact of the risk identified. It reports to the Board any actions arising from the review of the Risk Register to be incorporated in the financial and operational plans as appropriate.

It reviews the Internal Capital Adequacy Assessment including the design, build, operation and oversight of the Group's internal models, where applicable and also the ORSA. The Committee reviews the scope of the work of Internal Audit as it relates to issues of risk and encourages a culture of risk awareness throughout the Company. It provides advice on aspects of risk on request from the Board. The Committee reports to the Board the outcome of each meeting and ensures that all members of the Board are fully aware of the output of the work of the Committee and the sensitivities or risks associated with the recommendations of the Committee.

On 19 January 2016, the Committee carried out a review of its activities for the year and was able to confirm to the Board that it had discharged its responsibilities to the Board in respect of the year ended 31 December 2015.

Nominations and Remuneration Committee

Peter Dodd (Chairperson)
Ian Cracknell (to December 2015)
Mike Hayes*
Lucia McKeever
Marion Saunders
Andrew Wainwright-Brown*

* ex officio

The Committee is scheduled to meet twice a year. The responsibilities of the Committee include reviewing the Board's structure, size and composition, selecting and proposing to the Board suitable candidates for appointment as Directors, and succession planning. The

CORPORATE GOVERNANCE REPORT (continued)

Committee considers the balance of skills, knowledge, experience, length of service, independence, diversity (including gender), potential conflicts of interest and time commitment for all Directors.

The Committee determines the remuneration policy and individual remuneration packages for Directors. It reviews and approves changes to their annual salaries, performance award arrangements, fees, service contracts and other employment conditions.

In order to benchmark all roles both internally and externally, the Company utilises the services of Wolters Kluwer, and specifically the Croner Reward Scheme. Wolters Kluwer has no connection to the Company other than providing these services.

Attendance at 2015 Board and Committee Meetings

	Board	Audit Committee	Risk Committee	Nominations and Remuneration Committee
Director	Meetings attended	Meetings attended	Meetings attended	Meetings attended
Bob Abberley	6 (6)	1 (1)	3 (4)	
Ian Cracknell	6 (6)		4 (4)	2 (2)
Peter Dodd	5 (6)	4 (4)		2 (2)
Mike Hayes	6 (6)		4 (4)	2 (2)
Lucia McKeever	6 (6)			2 (2)
Eithne McManus	6 (6)	4 (4)	4 (4)	
Marion Saunders	6 (6)	4 (4)		2 (2)
Eleanor Smith	6 (6)		3 (4)	
Ben Terrett	6 (6)	4 (4)	4 (4)	
Andrew Wainwright-Brown	6 (6)	4 (4)	4 (4)	2 (2)
Tony Woodley	4 (6)	3 (4)		

The number in brackets represents the number of meetings that the Director was eligible to attend during the year.

DIRECTORS' REMUNERATION REPORT

Remuneration Policy for Executive Directors

The policy is that the remuneration for Executive Directors should reflect performance and enable the Company to attract, motivate, and retain suitably qualified individuals. The Nominations and Remuneration Committee uses an independent specialist advisor, Wolters Kluwer (Croner Reward Scheme), to provide survey data on remuneration levels in comparable companies.

Salaries

Base salaries are reviewed annually, and for competent performance, the Committee's policy is to pay around the median level indicated by the survey data.

Variable pay

Annual bonus
Executive Directors are eligible to participate in an annual performance based, cash performance award scheme. The Committee reviews and agrees performance award targets and levels of eligibility annually. The performance award is based on two factors; overall underwriting performance and on achievement of a set of personal objectives, which directly support the business plan. The first factor is designed to pay out a maximum of 5% percentage of base salary and there is a threshold below which no performance award is paid. Total awards for exceptional performance will not exceed 10% for the CEO and Finance Director.

Long term incentive plans
In the year under review, the Company operated two long term incentive schemes, the first of which ceased on 31 December 2013, the second of which commenced on 1 January 2014.

The first, essentially a deferred cash bonus scheme, accrues to Executive Directors and is based solely on unaudited household underwriting performance from the year ended 31 December 2012. The measures of Underwriting performance and consequential bonus payments are set out below.

Underwriting Profit £1.0 million – Directors deferred cash bonus £10,000
Underwriting Profit £1.5 million – Directors deferred cash bonus £15,000

In the year ended 31 December 2012 the Company made an underwriting profit of £1.7 million before deduction of Exceptional Items and there have been no material adjustments to that figure subsequently. Therefore a reward of £15,000 was paid to both the CEO and Finance Director in February 2015.

The second scheme replaced the first scheme and came into operation on 1 January 2014. It is a more wide ranging scheme which takes into account the performance of the company over a longer period, tying in the Executive Directors to the long term viability and performance of the Company. Whilst no payments have been made under this scheme in the year under review, there are amounts accruing within the accounts as follows:

Finance Director	£29,250 in respect of the period commencing 1 January 2014
Finance Director	£23,400 in respect of the period commencing 1 January 2015

The Marketing Director is part of this scheme but as he was not appointed until 20 January 2016, no disclosure is made in these accounts.

The scheme operates under a three year cycle, with initial seed capital provided in the sum of £25,000 for the CEO and £20,000 for the Finance Director. This seed capital is then subjected to a number of key performance and key conduct indicators, agreed by the Nominations and Remuneration Committee at the start of the year. KPI measures include

DIRECTORS' REMUNERATION REPORT (continued)

Solvency, Return on Capital Employed and Combined Operating Ratio. Conduct measures include Retention Rates, Complaints and Compliance breaches.

The amount only accrues if the performance target has been exceeded by 5% and is scaled as follows:

Percentage of performance 105% = 100% of seed capital
Percentage of performance 110% = 120% of seed capital
Percentage of performance 120% = 140% of seed capital

At a meeting of the Nominations and Remuneration in January 2016, it was agreed that the scheme be formally reviewed annually and all of the metrics, including KPIs, KCIs and the Percentage of performance are subject to change, at the discretion of the Committee.

Pension

Executive Directors are eligible to be members of UNISON's Staff Pension Scheme, which is a defined benefit plan with a pension paid on retirement based on salary and length of service. Contributions of 9.1% were made in 2015 by way of salary sacrifice by the directors plus a further 25% by the Company. The scheme provides a lump sum benefit of four times basic salary in the event of death in service.

Other benefits

Executive Directors are provided with a company car or receive a car allowance equivalent in value to the maximum permitted lease cost, plus insurance and servicing costs. The maximum permitted value varies with the role.

In addition Executive Directors are eligible to participate in the Company's Healthcare Cashplan arrangement which is run by Westfield Heath.

All Executive Directors have contracts of employment incorporating their terms and conditions that are normally terminable by either party giving one year's notice.

Remuneration Policy for Non-Executive Directors

Fees for Non-Executive Directors are reviewed annually by the Nominations and Remuneration Committee with changes normally effective from 1 January. They are designed to recognise their responsibilities and are benchmarked against the same role in other comparable organisations using information from Croner. The policy is to allow discretion to accommodate the need to attract different skills, experience and knowledge. Fees comprise a basic annual fee, paid in monthly instalments. Fees are neither pensionable nor performance related and Non-Executive Directors do not participate in any bonus schemes. Committee chairs are paid an additional £3,000 in excess of their agreed Croner rates in recognition of their additional responsibilities.

Directors' Emoluments

These are shown in note 7 to the accounts.

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Societies law, as modified by the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008 (the Regulations) and the Companies Act 2006 require the directors to prepare financial statements for each financial year. In accordance with the Regulations the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under the Regulations the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed subject to any material departures disclosed and explained in the accounts; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Regulations. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UIA (INSURANCE) LIMITED

Independent Auditors report on financial statements of UIA (Insurance) Limited

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2015 and of the group's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008.

The financial statements comprise the consolidated statement of profit and loss, the consolidated statement of comprehensive income, the consolidated and company balance sheets, the consolidated statements of changes in equity and the consolidated cash flow statement and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", having regard to the statutory requirement for insurance companies to maintain equalisation provisions. The nature of equalisation provisions, the amounts set aside at 31 December 2015, and the effect of the movement in those provisions during the year on members' funds, the balance on the general business technical account and profit before tax, are disclosed in note 17.

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

We have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 2 to the financial statements and the directors' statement on the longer-term viability of the Group contained within the corporate governance report on page 13.

We have nothing material to add or draw attention to in relation to:

- the directors' confirmation on page 4 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 4 to 5 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in note 2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- director's explanation on page 13 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UIA (INSURANCE) LIMITED (continued)

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk	How the scope of our audit responded to the risk
Insurance technical provisions The assessment of the calculation of the insurance technical provisions for claims outstanding requires management to make significant judgements in respect of the quantum of the ultimate cost of settling claims as set out in the accounting policy for claims incurred in note 2 to the financial statements. The reserve for gross claims outstanding was £12.3m at 31 December 2015 (2014: £12.6m) as set out in note 16.	We: • Evaluated the design and implementation of controls around the reserving process, discussed the reserving methodology and confirmed the changes in assumptions from the prior year-end; • Tested the underlying case reserves by agreement to supporting documentation including loss adjuster reports where relevant; • Tested the underlying data used in the reserving process by reconciling the inputs to the audited claims data in order to evaluate its completeness and accuracy with the support of our IT specialists; • Challenged the key judgements within the calculation of the insurance technical provisions for claims outstanding by working with our general insurance actuarial specialists who benchmarked key assumptions and judgements against those of other insurers and assessed the material changes in methodology and assumptions, the approach to reserving for weather losses and the impact of claims experience in the year; • Reviewed the 2015 settlement experience for previous years' claims against assumptions made in the prior year to assess management's level of accuracy in predicting the uncertainties considered in calculating technical reserves.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UIA (INSURANCE) LIMITED (continued)

Assumptions underpinning the calculation and recognition of retirement benefit obligations	
The assessment of the carrying value of the pension deficit relating to the group's defined benefit pension scheme is based on assumptions which require significant management judgement as set out in the accounting policy for pension commitments in note 2 to the financial statements. The deficit at 31 December 2015 was £5.5m (2014: £6.4m) as set out in note 24. The key assumptions are the discount rate, inflation rate and mortality rates.	We: • Challenged and benchmarked key actuarial assumptions used individually and in aggregate, against those considered acceptable as at 31 December 2015 by our internal actuarial specialists; • Considered the sensitivity of key assumptions; and • Challenged the completeness and accuracy of the underlying data provided to the actuary.

The treatment of IT development costs is no longer a significant audit risk compared to 2014 following the decision of management to terminate the project and write-off the associated costs.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 16.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the group to be £312,000 (2014: £307,000) which is approximately 1.5% (2014: 1.5%) of earned premiums and below 1% (2014: 1%) of capital and reserves. Net earned premium is considered the appropriate basis for the calculation of materiality (2014: same) as it is stable between reporting periods.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £15,000 (2014: £15,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and their environment, including group-wide controls, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement for all entities in the group was performed directly by the audit engagement team.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UIA (INSURANCE) LIMITED (continued)

There were no significant changes in scope from the prior year audit. All trading entities within the group are managed together from the same location and each were subject to a full scope audit executed at levels of materiality applicable to each individual entity which were lower than group materiality and ranged from £48k to less than £1k (2014: ranged from £23k to less than £1k).

We also tested the consolidation process at the parent entity level.

Opinion on other matters prescribed by the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made.

We have nothing to report in respect of these matters.

Corporate Governance Statement

In accordance with our instructions from the company we review whether the Corporate Governance Report reflects the company's compliance with those provisions of the UK Corporate Governance Code specified for our review by the Association of Financial Mutuals. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UIA (INSURANCE) LIMITED (continued)

to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team.

This report is made solely to the company's members, as a body, in accordance with the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

David Heaton (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom

16 March 2016

UIA (Insurance) Limited

CONSOLIDATED STATEMENT OF PROFIT AND LOSS
for the year ended 31 December 2015

	Notes	2015 £000	2015 £000	2014 £000	2014 £000
Gross premiums written		23,029		22,780	
Outwards reinsurance premiums		(2,183)		(2,263)	
Change in the gross provision for unearned premiums		(62)		73	
Earned premiums, net of reinsurance	4		20,784		20,590
Claims paid					
Gross amount		(11,841)		(12,367)	
Reinsurers' share		3,344		3,027	
Change in the provision for claims					
Gross amount		365		2,592	
Reinsurers' share		(1,426)		(1,452)	
Claims incurred, net of reinsurance			(9,558)		(8,200)
Change in equalisation provision			2		12
Net operating expenses (including exceptional item)			(10,464)		(11,511)
Balance on technical account before exceptional item		1,033		2,541	
Exceptional item	5	(269)		(1,650)	
Balance on technical account after exceptional item		764		891	
Balance on technical account			764		891

CONSOLIDATED STATEMENT OF PROFIT AND LOSS (continued)
for the year ended 31 December 2015

	Notes	2015 £000	2014 £000
Non technical account			
Balance from technical account		764	891
Investment income	8	1,874	2,074
Unrealised losses on investments		(1,808)	(460)
Investment expenses and charges		(75)	(128)
Other income	12	2,775	2,790
Other charges	12	(2,553)	(2,657)
Surplus on ordinary activities before taxation	5	977	2,510
Tax on profit on ordinary activities	9	(69)	(434)
Surplus for the year		908	2,076

All of the income and expenditure relates to continuing operations and attributable to the members.

The notes on pages 34 to 64 form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2015

	Notes	2015 £000	2014 £000
Retained surplus for the year		908	2,076
Remeasurement of net defined benefit liability	24	1,109	(1,701)
Total comprehensive income		2,017	375

All results are derived from continuing operations.

The notes on pages 34 to 64 form part of these financial statements.

UIA (Insurance) Limited

BALANCE SHEET **Company Number 2898R**

as at 31 December 2015

	Notes	The Group		The Company	
		2015 £000	**2014** £000	**2015** £000	**2014** £000
ASSETS					
Intangible Assets					
Development costs	11	452	92	452	92
Investments					
Other financial investments	12	55,703	53,520	55,968	53,904
Reinsurers' share of technical provisions					
Clams outstanding		4,473	5,899	4,473	5,899
Debtors					
Arising out of direct insurance operations		14,176	16,942	14,176	16,942
Other debtors	13	204	7	272	80
		14,380	16,949	14,448	17,022
Other assets					
Tangible assets	14	30	81	30	80
Cash at bank and in hand		3,185	4,035	3,112	3,944
		3,215	4,116	3,142	4,024
Prepayments and accrued income					
Accrued interest		17	56	17	56
Other prepayments and accrued income		853	930	667	722
		870	986	684	778
Total Assets		79,093	81,562	79,167	81,719

UIA (Insurance) Limited

BALANCE SHEET (continued) **Company Number 2898R**
as at 31 December 2015

	Notes	The Group		The Company	
		2015 £000	**2014** £000	**2015** £000	**2014** £000
LIABILITIES					
Capital and reserves					
Share capital	15	1	1	1	1
Profit and loss account		36,245	34,228	35,717	33,997
		36,246	34,229	35,718	33,998
Technical provisions					
Provision for unearned premiums					
Gross amount	16	11,047	10,985	11,047	10,985
Claims outstanding					
Gross amount	16	12,290	12,580	12,290	12,580
Equalisation Provision	17	4,093	4,095	4,093	4,095
		27,430	27,660	27,430	27,660
Creditors					
Arising out of direct insurance operations		2,962	4,279	2,962	4,279
Arising out of reinsurance operations		4,190	6,475	4,190	6,475
Other creditors including taxation and social security	18	2,789	2,515	3,391	2,903
		9,941	13,269	10,543	13,657
Provision for liabilities					
Other liabilities	20	5,476	6,404	5,476	6,404
Total liabilities		79,093	81,562	79,167	81,719

Approved by the Board of Directors and authorised for issue on 16 March 2015 and signed on their behalf by:

Andrew Wainwright-Brown
Senior Independent Director

Ben Terrett
Finance Director
Company Secretary

The notes on pages 34 to 64 form part of these financial statements.

UIA (Insurance) Limited

STATEMENTS OF CHANGES IN EQUITY
as at 31 December 2015

The Group	Share capital £000	Profit and loss account £000	Total £000
At 31 December 2013 as previously stated	1	33,956	33,957
Changes on transition to FRS 102/103 (note 26)	-	(103)	(103)
At 1 January 2014 as restated	1	33,853	33,854
Surplus for the financial year	-	2,076	2,076
Remeasurement of net defined benefit liability	-	(1,701)	(1,701)
At 31 December 2014	1	34,228	34,229
Surplus for the financial year	-	908	908
Remeasurement of net defined benefit liability	-	1,109	1,109
At 31 December 2015	1	36,245	36,246

The Company	Share capital £000	Profit and loss account £000	Total £000
At 31 December 2013 as previously stated	1	33,924	33,925
Changes on transition to FRS 102/103 (note 26)	-	(103)	(103)
At 1 January 2014 as restated	1	33,821	33,822
Surplus for the financial year	-	1,877	1,877
Remeasurement of net defined benefit liability	-	(1,701)	(1,701)
At 31 December 2014	1	33,997	33,998
Surplus for the financial year	-	611	611
Remeasurement of net defined benefit liability	-	1,109	1,109
At 31 December 2015	1	35,717	35,718

UIA (Insurance) Limited

CONSOLIDATED CASHFLOW STATEMENT
for the year ended 31 December 2015

	Notes	2015 £000	2014 £000
Net Cash flow used by operating activities before investment of insurance assets	20	1,598	390
Cash generated from investment of insurance assets		(9,990)	5,369
Net Cash generated from operating activities		(8,392)	5,759
Cash flows from investing activities			
Purchase of equipment		(469)	(146)
		(8,861)	5,613
Net cash (decrease)/increase in cash and cash equivalents		(8,861)	5,613
Cash and cash equivalents at beginning of year		22,943	17,330
Cash and cash equivalents at end of year		14,082	22,943
Reconciliation to cash at bank and in hand:			
Cash at bank and in hand		3,185	4,035
Cash equivalents		10,897	18,908
		14,082	22,943

The notes on pages 34 to 64 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

1. General Information

UIA (Insurance) Limited is a Registered Society under the Co-operative and Community Benefit Societies Act 2014 and is authorised and regulated by the Prudential Regulation Authority and regulated by the Financial Conduct Authority to carry out non-life insurance business. The address of the registered office is given on page 1. The nature of the Group's operations and its principal activities are set out in the operating and financial review on pages 2 to 5.

2. Accounting policies

2.1 Basis of preparation

The financial statements have been prepared under the historical cost convention, modified to include the valuation of investments at fair value or at amortised cost, and in accordance with Financial Reporting Standards 102 & 103 (FRS 102 & 103) issued by the Financial Reporting Council. The company is subject to the requirements of the Companies Act 2006 and the European Union (Insurance Undertakings: Financial Statements) Regulations 2015.

The prior year financial statements were restated for material adjustments on adoption of FRS 102 & 103 in the current financial year. For more information see note 26.

In accordance with FRS 103, the Group has applied existing accounting policies for insurance contracts.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review which forms part of the Strategic Report. The Strategic Report also describes the financial position of the Group; its cash flows and liquidity position, the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposure to credit risk and liquidity risk.

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2.2 Basis of Consolidation

The consolidated financial statements include the assets and liabilities at 31 December 2015 of the parent company and its subsidiaries. Similarly, the results of the parent company and its subsidiaries are included for the year ended 31 December 2015. Income from non-insurance subsidiaries is shown in the non-technical account. The accounting policies are applied consistently across the Group. All intercompany transactions, balances and surpluses and deficits on transactions between Group companies have been eliminated.

2.3 Parent company disclosure exemptions

UIA (Insurance) Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to financial instruments, presentation of a cash flow statement, intra-group transactions and remuneration of key management personnel.

2. Accounting policies (continued)

2.4 Insurance classification

The Group's contracts are classified at inception, for accounting purposes, as insurance contracts. A contract that is classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. Insurance contracts are those contracts that transfer significant insurance risk, if and only if, an insured event could cause an insurer to make significant additional benefits or incur losses in any scenario, excluding scenarios that lack commercial substance. Such contracts may also transfer financial risk.

2.5 Revenue recognition

Premiums
Written premiums for non-life (general) insurance business comprise the premiums on contracts incepting in the financial year. Estimates are included for premiums not yet notified by the financial year end. Written premiums are stated gross of commissions payable to introducers and exclusive of taxes and duties levied on premiums.

Unearned premiums are those proportions of the premium which relate to periods of risk after the balance sheet date. Unearned premiums are calculated on a time apportionment basis.

Outward reinsurance premiums are accounted for on a payable basis.

Investment return
Investment return consists of dividends, interest, movements in amortised cost on debt securities, realised gains and losses, and unrealised gains and losses on fair value assets.

Interest income
Interest income is recognised by applying the effective interest rate method, except for short-term receivables when recognition of interest would be immaterial.

Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income
Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Realised gains and losses
The realised gain or loss on disposal of an investment is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate.

Unrealised gains and losses
Unrealised gains or losses represent the difference between the carrying value at the financial year end and the carrying value at the previous financial year end or purchase value during the financial year, less the reversal of previously recognised unrealised gains and losses in respect of disposals during the financial year

Investment returns are reported in the non-technical account.

2. Accounting policies (continued)

2.6 Taxation

Current tax including United Kingdom Corporation Tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The taxation expense represents the sum of the tax currently payable and deferred tax.

United Kingdom taxation charged in the non-technical account is based on profits and income including realised gains and losses on all investments for the year as determined in accordance with the relevant tax legislation, together with adjustments in respect of earlier years. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in future or a right to pay less tax In the future have occurred at the balance sheet date.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded are more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

The carrying amount of deferred taxation assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or that asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Group intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.7 Intangible assets

Software expenditure
An internally-generated intangible asset arising from the Group's software development is recognised only if all the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Assets resulting from the purchase of software are initially measured at cost.

2. Accounting policies (continued)

Software is amortised on a straight-line basis over its estimated useful life, which is typically 3 to 5 financial years.

Where no internally-generated asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

The impairment policy is set out in note 2.10 below.

2.8 Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Computer equipment	50%
Plant and machinery	20% to 50%
Fixtures and fittings	20% to 50%

2.9 Retirement benefit costs

Employees are eligible to join the defined benefit scheme of UNISON, which is a multi-employer scheme. The disclosures required to be made under the provisions of FRS 102 are made in note 24. Employees of both UIA (Insurance) Limited and UIA (Call Centres) Limited are eligible to participate in the scheme. It is only possible to ascertain the assets and liabilities at group level that attach to the companies.

The Directors consider the scheme assets and liabilities attach solely to UIA (Insurance) Limited and as such the scheme is accounted for as a defined benefit scheme within the parent company's accounts and at group level.

The current and past service costs are included within operating expenditure. Net interest costs are included within investment income. Remeasurement of the net defined benefit liability is accounted for in the Statement of Comprehensive Income. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. Full actuarial valuations are obtained every three years and are updated at each balance sheet date. The resulting defined benefit scheme liability is shown within note 24.

2.10 Impairment of assets

Assets, other than those measured at fair value, are assessed for indicator of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit and loss as described below.

Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

2. Accounting policies (continued)

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than he carrying value had no impairment been recognised.

Financial Assets
For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of its estimated future cash flows, discounted at the financial asset's original effective interest rate. For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for the decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

2.11 Financial assets and liabilities

The Company's investments comprise debt and equity instruments, cash and cash equivalents, receivables and investments in subsidiaries.

Recognition
Financial assets and liabilities are recognised when the company enters into the contractual provisions of the instrument.

Initial Measurement
All financial assets and liabilities are initially recognised at the transaction price (including transactional costs), with the exception of any financial assets and liabilities that are measured at fair value through the profit and loss (which is normally the transaction price less the transaction cost), or if the arrangement constitutes a financing transaction. If the arrangement constitutes a financing transaction then the financial asset or liability is recognised at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Subsequent measurement
Non-current debt instruments which meet the following criteria set out under FRS 102 section 11.9 are measured at amortised cost using the effective interest method:

a) Returns to the holder are a fixed amount, or a fixed rate of return over the life of the instrument, or a variable return that, throughout the life of the instrument, is equal to a single referenced quoted or observable interest rate, or some combination of such fixed and variable rates as long as both are positive.
b) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.
c) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put back to the issuer before maturity are not contingent on future events other than to protect the holder against credit deterioration of the issuer, or a change in control of the issuer or the holder or issuer against changes in relevant taxation or law.

2. Accounting policies (continued)

d) There are no conditional returns or repayment provisions except for the variable rate return described in (a) and prepayment provision described in (c).

Debt instruments that are payable and receivable within one year are measured at the undiscounted amount of the cash or other consideration expected to be paid or received net of impairment.

Other debt instruments not meeting these conditions are measured at fair value through profit and loss.

Commitments to make and receive a loan that meet the conditions above are measured at cost less impairment.

Investments in non-convertible preference shares and non-puttable ordinary shares or preference shares are measured at their fair value with changes in fair value being recognised in profit and loss when the shares are publically traded or if their fair value can be measured reliably. All other such investments are measured at cost less impairment.

Fair Value Measurement
Where available, fair value is taken as a quoted price for an identical asset in an active market. If a quoted price is not available, the price of a recent transaction for an identical asset is used as long as there has not been a change in economic circumstances. If there is no active market and no recent transactions and an identical asset on its own is not a good estimate of fair value, an estimate of the fair value is made using another valuation technique.

Impairment of financial instruments measured at amortised cost or cost
For an instrument measured at amortised cost, the impairment loss is the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate.

For an instrument measured at cost less impairment the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that the entity would receive.

If in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the entity shall reverse the previously recognised impairment loss either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the carrying amount would have been had the impairment not previously been recognised. The Group recognises the amount of the reversal in profit and loss immediately.

Cash and cash equivalents
Cash and cash equivalents comprise of cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities three months or less and bank overdrafts.

Investment in subsidiaries
In the Company balance sheet, investments in subsidiaries are measured at cost less impairment.

2. Accounting policies (continued)

2.12 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

2.13 Insurance contracts

Claims
Claims consist of claims paid to policyholders, changes in the valuation of the liabilities arising on policyholder contracts and internal and external claims handling expenses, net of salvage and subrogation recoveries.

Acquisition costs
Acquisition costs comprise all direct and indirect costs arising from the sale of insurance contracts and are expensed as incurred.

Provision for outstanding claims
Provision for the liabilities of non-life insurance contracts is made for outstanding claims and settlement expenses incurred at the balance sheet date including an estimate for the cost of claims incurred but not reported (IBNR) at that date. Included in the provision is an estimate of the internal and external costs of the handling of the outstanding claims. Material salvage and other recoveries including reinsurance recoveries are presented as assets.

Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business and subsidence claims, the ultimate cost of which may vary from the original assessment. Adjustments to the amounts of claims provisions established in prior financial years are reflected in the financial statements for the period in which the adjustments are made and disclosed separately, if material.

Equalisation provision
An FRC created equalisation provision has been established and calculated in accordance with chapter 1 of the Prudential Sourcebook for Insurers (INSPRU) and is disclosed in note 17.

Liability adequacy
At each reporting date the Group performs a liability adequacy test on its insurance liabilities less related intangible assets to ensure that the carrying value is adequate, using current estimates of cash flows, taking into account the relevant investment return. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognised as an expense in the profit and loss account initially by writing off the intangible assets and subsequently by recognising an additional liability for claims provisions or recognising a provision for unexpired risks. The unexpired risks provision is assessed in aggregate for business classes which are managed together.

2. Accounting policies (continued)

2.14 Reinsurance

The company enters into reinsurance contracts in the normal course of business in order to limit the potential for losses arising from certain exposures. Outwards reinsurance premiums are accounted for in the same period as the related premiums for the direct or inwards insurance business being reinsured.

Reinsurance liabilities comprise premiums payable for outwards reinsurance contracts and are recognised as an expense when due.

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses. Reinsurance assets are measured consistently with the amounts associated with the underlying insurance contract and in accordance with the terms of the reinsurance contract. Reinsurance is recorded as an asset unless a right of set-off exists, in which case the associated liabilities are reduced to take account of reinsurance.

Reinsurance assets are subject to impairment testing and the carrying amount is reduced to its recoverable amount. The impairment loss is recognised as an expense in the income statement. The asset is impaired if objective evidence is available to suggest that it is probable that the Group will not be able to collect the amounts due from reinsurers.

2.15 Insurance receivables and payables

Receivables and payables arising under insurance contracts are recognised when due and measured at cost. No discounting is applied due to their short-term nature.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects that period only, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimates (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Key sources of estimation uncertainty
The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

Valuation of financial instruments

All recognised financial assets held by the company are measured at either amortised cost or fair value. Debt instruments held by the company that meet the condition set out under FRS102 11.8(b) are held at amortised cost less impairment. All other debt and equity investments are held at fair value at the end of the accounting period.

FRS102 section 11.27 establishes a fair value hierarchy that prioritises the inputs to valuation methods used to measure fair value. The hierarchy is as follows.

Level 1 – Quoted prices for an identical asset in an active market. Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 – When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant lapse of time since the transaction took place, If it can be demonstrated that the last transaction price is not a good estimate of fair value, that price is adjusted.

Level 3 – If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

Reserving

Reserving for claims is a critical judgement and is described in note 2.13 above.

4. Segmental analysis

Technical account	Household 2015 £000	Legal Expenses 2015 £000	Total 2015 £000	Household 2014 £000	Legal Expenses 2014 £000	Total 2014 £000
Gross premiums written	21,428	1,601	23,029	21,220	1,560	22,780
Outwards reinsurance premiums	(963)	(1,220)	(2,183)	(1,068)	(1,195)	(2,263)
Change in the gross provision for unearned premiums	(62)	-	(62)	73	-	73
Earned premiums, net of reinsurance	20,403	381	20,784	20,225	365	20,590
Claims incurred, net of reinsurance						
Claims paid						
Gross amount	(8,500)	(3,341)	(11,841)	(9,360)	(3,007)	(12,367)
Reinsurers' share	-	3,344	3,344	-	3,027	3,027
Change in the provision for claims						
Gross amount	(1,285)	1,650	365	880	1,712	2,592
Reinsurers' share	237	(1,663)	(1,426)	269	(1,721)	(1,452)
Change in equalisation provision	2	-	2	12	-	12
Operating expenses	(10,006)	(189)	(10,195)	(9,652)	(209)	(9,861)
Exceptional item	(269)	-	(269)	(1,650)	-	(1,650)
Net operating expenses	(10,275)	(189)	(10,464)	(11,302)	(209)	(11,511)
Balance on technical account	582	182	764	724	167	891

All insurance underwritten by the Company is in respect of risks incepted in the United Kingdom.

5. Surplus on ordinary activities before taxation

Surplus on ordinary activities before taxation is stated after including:	**2015** £000	**2014** £000
Acquisition costs	4,172	5,688
Auditors' remuneration		
Fees payable to the auditor for the audit of the annual accounts	69	57
Fees payable for the audit of subsidiary companies pursuant to legislation	12	12
Other services pursuant to legislation	8	8
Other services pursuant to taxation	3	2
Other assurance services	15	-
Operating lease payments		
Rental of buildings	292	288
Hire of plant and machinery	42	46
Depreciation	61	86
Amortisation	97	157
Exceptional item	269	1,650

Non-audit services in respect of the Company provided to a third party totalled £135,000.

Exceptional item

During 2014 we began an exercise to install a new insurance administration system. As described in the Strategic Report, it was recognised that the cessation of implementation work in November 2014 meant that the costs incurred of £1,650,000 had to be written off in the 2014 accounts. Further additional costs of £269,000 were incurred and written off in 2015. As the amount is material in nature, we have classified this as a non-recurring exceptional item.

6. Employee information

The average monthly average number of people (including Executive Directors) employed by the Group during the year was as follows:

	2015	**2014**
Underwriting and claims	30	31
Administration and finance	26	29
Sales and marketing	24	25
Subsidiary activities	54	53
	134	138

6. Employee information (continued)

Staff costs for the above persons were as follows:

	2015 £000	**2014** £000
Wages and salaries	3,510	3,562
Social security cost	274	275
Pension cost	1,048	1,049
Holiday Pay Accrual	12	31
	4,844	4,917

7. Directors' emoluments

The remuneration of the Directors who served during the year is detailed below:

	Salary and fees £	Performance Award £	Benefits £	Total **2015** £	Total **2014** £
Executive					
Ian Cracknell	346,439	25,871	54,194	426,504	181,478
Ben Terrett	95,445	22,600	9,761	127,806	103,498
Non-Executive					
Bob Abberley	26,525	-	-	26,525	20,600
Peter Dodd	29,600	-	-	29,600	21,600
Mike Hayes	45,000	-	-	45,000	39,758
Eithne McManus	32,833	-	-	32,833	5,000
Bob Newton	-	-	-	-	24,486
Marion Saunders	26,600	-	-	26,600	20,600
Geoffrey Shears	-	-	-	-	1,750
Andrew Wainwright-Brown	36,000	-	-	36,000	28,796
Tony Woodley	26,600	-	-	26,600	18,883

Lucia McKeever and Eleanor Smith waived their directors' fees for 2015 and 2014 in lieu of company payments to nominated charities.

Included in the amounts above for Ian Cracknell are salary and fees of £191,000 and benefits of £38,300 relating to a payment for loss of office.

7. Directors' emoluments (continued)

Pension Entitlement	Years of service	Accrued pension as at 31 December 2015	Increase in accrued pension
		£	£
Ian Cracknell	18	51,300	7,298
Ben Terrett	3	16,917	3,194

The increase in accrued pension during the year is the result of both the additional service accrued and the impact of the increase in salary on the past accrual.

The total accrued pension at 31 December 2015 shown above is the pension to which each director would be entitled on leaving service, but deferred to retirement age. The years of service figures are those whilst serving in the capacity of director.

The increase in accrued pension is the difference between the accrued pension at the start and end of the year, adjusted for appointment or resignation dates as appropriate.

8. Net investment return

	Net investment income 2015 £000	Amortised interest 2015 £000	Net investment expenses 2015 £000	Net realised gains/ (losses) 2015 £000	Changes in fair value 2015 £000	Net investment result 2015 £000
Equities	425	-	(74)	(1,882)	432	(1,099)
Bonds	-	78	(3)	(15)	-	60
Unit trusts	50	-	(1)	3,350	(2,240)	1,159
Term deposits	25	-	(13)	-	-	12
Cash and cash equivalents	38	-	23	-	-	61
Other investment income	18	-	-	-	-	18
Return on pension scheme	(213)	-	-	-	-	(213)
Other investment expenses	-	-	(7)	-	-	(7)
	343	78	(75)	1,453	(1,808)	(9)

	Net investment income 2014 £000	Amortised interest 2014 £000	Net investment expenses 2014 £000	Net realised gains/ (losses) 2014 £000	Changes in fair value 2014 £000	Net investment result 2014 £000
Equities	256	-	(49)	1,072	(456)	823
Bonds	-	227	(2)	(138)	96	183
Unit trusts	-	-	(2)	679	(100)	577
Term deposits	66	-	(52)	-		14
Cash and cash equivalents	82	-	(19)	-		63
Other investment income	14	-	-	-		14
Return on pension scheme	(184)	-	-	-		(184)
Other investment expenses	-	-	(4)	-		(4)
	234	227	(128)	1,613	(460)	1,486

9. Taxation on profit on ordinary activities

The Company, as a mutual, is not taxed on its transactions with members and only investment income is subject to corporation tax.

	2015 £000	2014 £000
(a) Analysis of the tax charge		
UK corporation tax:		
Current tax	69	449
Adjustments in respect of previous periods	-	62
Changes in deferred tax balances (see (c))	-	(77)
Total	69	434

(b) Factors affecting tax charge for the year
The tax assessed for the year is lower than 20.25% (2014: 21.5%) of taxable income for the year. The differences are explained below:

	2015 £000	**2014** £000
Investment income	2,087	2,174
Unrealised gains on investments	(1,807)	449
Investment expenses and charges	(75)	(128)
	205	2,495
Profit of subsidiaries	219	133
	424	2,628
Tax on investment income at 20.25% (2014: 21.5%)	85	565
Effects of:		
Fully franked investment income	(78)	(42)
Unrealised gain movement	361	(94)
Difference between tax and accounts unrealised gains movement	20	77
Indexation	(319)	(58)
20% tax rate in subsidiaries	-	1
Adjustments in respect of previous periods	-	62
Current tax charge for the year (see (a))	69	511

(c) Provision for deferred taxation

	2015 £000	**2014** £000
Deferred tax liability at 1 Jan	-	77
Deferred tax charge for year	-	(77)
Deferred tax liability at year end	-	-

In 2015, a deferred tax asset of £186,000 in UIA (Insurance) Limited was not recognised (2014: £167,000) in accordance with the provisions of FRS 102 (Deferred Tax).

10. Surplus for the financial year

Consistent with Section 408 of the Companies Act 2006 the Company income statement is not presented as part of these financial statements. The surplus for the financial year of £2,017,000 (2014: £2,359,000) includes £1,720,000 surplus (2014: £2,160,000), which is dealt with in the financial statements of the Company.

11. Intangible assets

(a) Intangible assets – Group

	Software Development £000
Cost	
At 1 January	2,466
Additions	457
Disposals	-
At 31 December	2,923
Accumulated depreciation	
At 1 January	(2,374)
Charge for the year	(97)
Disposals	-
At 31 December	(2,471)
Net book value at 31 December 2015	452
Net book value at 31 December 2014	92

(b) Intangible assets – Company

	Software Development £000
Cost	
At 1 January	2,466
Additions	457
Disposals	
At 31 December	2,923
Accumulated depreciation	
At 1 January	(2,374)
Charge for the year	(97)
Disposals	
At 31 December	(2,471)
Net book value at 31 December 2015	452
Net book value at 31 December 2014	92

12. Financial Instruments

The carrying values of the Group's financial assets and liabilities are summarised by category below:

	The Group 2015 £'000	The Group 2014 £'000
Financial Assets		
Measured at fair value through profit and loss		
Shares and other variable securities in unit trusts	35,413	23,144
Debt Securities and other fixed income securities	7,220	10,960
	42,633	34,104
Measured at amortised cost		
Loans and receivables	2,173	508
Measured at cost less impairment		
Cash and Cash equivalents	10,897	18,908
Total financial assets	55,703	53,520

The Group has no financial liabilities. (2014: £nil)

Investment in subsidiaries - Company

	2015 £000	2014 £000
At 1 January	383	475
Impairment	(118)	(92)
At 31 December	265	383

The Company has five wholly owned subsidiaries, which are registered in England and Wales:

- UIA (Insurance Services) Limited acts as an insurance agent;
- UIA (Call Centres) Limited acts as an operator of telephone call centres;
- UIA (Trustees) Limited acts as corporate trustee for the UIA Charitable Foundation
- UIA Lottery Management Services Limited acts as a lottery operator; and
- Uniservice Limited (dormant)

Other income and other charges included in the non-technical account represent the income and expenditure of the subsidiary companies.

13. Other debtors

	The Group		The Company	
	2015	**2014**	**2015**	**2014**
	£000	£000	£000	£000
Amounts owed by other parties	185	4	185	4
Corporation Tax	16	-	16	-
Deferred tax asset	3	3	-	-
Intercompany debtors	-	-	71	75
	204	7	272	79

14. Tangible assets

(a) Tangible assets – Group

	Computer Equipment & Systems	Furniture, Fixtures & Fittings	Total
	£000	£000	£000
Cost			
At 1 January	346	658	1,004
Additions	11	-	11
Disposals	(48)	(3)	(51)
At 31 December	317	655	972
Accumulated depreciation			
At 1 January	(289)	(634)	(923)
Charge for the year	(52)	(9)	(61)
Disposals	47	3	50
At 31 December	(302)	(640)	(942)
Net book value at 31 December 2015	15	15	30
Net book value at 31 December 2014	57	24	81

14. Tangible assets (continued)

(b) Tangible assets – Company

	Computer Equipment & Systems £000	Furniture, Fixtures & Fittings £000	Total £000
Cost			
At 1 January	306	615	921
Additions	11	-	11
Disposals	(48)	(3)	(43)
At 31 December	277	612	889
Accumulated depreciation			
At 1 January	(249)	(591)	(840)
Charge for the year	(52)	(9)	(61)
Disposals	47	3	42
At 31 December	(262)	(597)	(859)
Net book value at 31 December 2015	15	15	30
Net book value at 31 December 2014	57	24	81

15. Share capital

	2015 £000	**2014** £000
Issued and fully paid up		
128,700 ordinary shares of 1p (2014: 120,522)	1	1

Policyholders and joint policyholders of home insurance policies are also members of the Company. A 1p share is allocated to each member when they first take out a home insurance policy and the share or shares are cancelled upon cessation of their policy. As such, the number of ordinary shares in issue changes each year in line with the number of members.

16. Technical provisions

	The Group		The Company	
	2015 £000	**2014** £000	**2015** £000	**2014** £000
Provision for unearned premium – Gross				
Balance at 1 January	10,985	11,058	10,985	11,058
Movement in the provision	62	(73)	62	(73)
Balance at 31 December	11,047	10,985	11,047	10,985

16. Technical provisions (continued)

	The Group		The Company	
	2015	**2014**	**2015**	**2014**
	£000	£000	£000	£000
Claims outstanding – Gross				
Balance at 1 January	12,580	15,172	12,580	15,172
Movement in the provision	(290)	(2,592)	(290)	(2,592)
Balance at 31 December	12,290	12,580	12,290	12,580

An overprovision of £434,000 (2014: £244,000) arose on prior years' claims which has been released to the current year consolidated statement of profit and loss.

17. Equalisation provision

The amounts provided are not liabilities because they are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the reporting date.

Notwithstanding this, they are required by Schedule 3 to the Regulations to be included within technical provisions.

The provision has reduced accumulated funds at year-end by £4,093,000 (2014: £4,095,000) and for the year increased the balance on the technical account and increased the surplus on ordinary activities before taxation by £2,000 (£214: £12,000).

18. Other creditors

	The Group		The Company	
	2015	**2014**	**2015**	**2014**
	£000	£000	£000	£000
Corporation tax payable	44	271	-	243
Amounts owed to other parties	2,745	2,244	2,585	2,077
Intercompany creditors	-	-	806	583
	2,789	2,515	3,391	2,903

19. Provisions for liabilities

	Defined benefit pension scheme liability	Total
	£000	£000
At 31 December 2014	6,404	6,404
Movement for the year	(928)	(928)
At 31 December 2015	5,476	5,476

20. Reconciliation of operating surplus to cash generated by operations

	2015 £000	**2014** £000
Operating surplus before taxation and exceptional item	1,246	4,160
Exceptional item	(269)	(1,650)
Operating surplus before taxation	977	2,510
Adjustment for:		
Investment Income	(204)	(1,670)
Actuarial gain/(loss) on pension scheme	1,109	(1,701)
Pension costs provision	(928)	1,792
Depreciation	61	86
Amortisation	97	157
Loss on disposal of property, plant and equipment	1	13
Operating cash flows before movements in working capital	1,113	1,187
Decrease in reinsurance assets	1,426	1,452
(Decrease) in insurance contract Liabilities	(290)	(2,592)
Decrease in receivables	2,586	4,093
Decrease in accrued interest and prepayments	116	16
Increase/(Decrease) in unearned premiums	62	(73)
(Decrease) in payables	(3,102)	(3,367)
(Decrease) in Equalisation provision	(2)	(12)
Cash generated by operations	1,909	703
Taxes Paid	(311)	(313)
Net Cash flow used by operating activities before investment of insurance assets	1,598	390
Interest and Dividends received	582	578
Sales of financial investments	32,154	32,670
Purchase of financial investments	(42,669)	(27,822)
Rental income received from investment property	18	14
Financial expenses	(75)	(71)
Cash generated from investment of insurance assets	(9,990)	5,369

21. Operating lease commitments - Group

The future minimum lease payments under non-cancellable operating leases are as follows:

	Land and buildings **2015** £000	Land and buildings **2014** £000
Operating leases which expire:		
within one year	324	180
in two to five years	1,296	-
after more than five years	216	-
Total	1,836	180
Operating lease rentals charged to profit and loss in the year:	292	288

22. Related parties

Directors

Members of the Board of Directors may also be members of the Company through holding policies with the Company on the same terms as other members.

Directors emoluments are disclosed in note 7.

Group Companies

UIA (Insurance) Limited transacts with other group companies in the normal course of business.

The company has taken advantage of the exemption available under paragraph 33.1A of FRS 102 and has not provided details of transactions with entities forming part of the UIA Group.

23. Capital commitments

The Group has no capital commitments contracted for and payable within twelve months (2014: nil).

24. Pension costs

The Company participates in a funded pension scheme, the UNISON Staff Pension Scheme, which provides benefits for some of its employees based on final pensionable pay. The scheme is open to new members. The Company is one of several employers that sponsor the scheme.

The assets of the scheme are held in a separate trustee administered fund. The scheme is administered by trustees and is independent of the Company's finances.

Contributions are paid to the scheme in accordance with the Schedule of Contributions agreed between the trustees and the employers. The estimated amount of contributions expected to be paid to the scheme by the Company during 2016 is £1,139,000 (2015: £1,051,000).

The initial results of the formal actuarial valuation as at 30 June 2014 were updated to 31 December 2015 by an independent qualified actuary in accordance with FRS 102. As required by FRS 102, the value of the defined benefit liabilities has been measured using the projected unit method. The funding target is for the scheme to hold assets equal in value to the accrued benefits based on projected salaries. If there is a shortfall against this target, then the Company and trustees will agree on deficit contributions to meet this deficit over a period.

The assets and liabilities of the scheme are not segregated between the employers that participate in the scheme. Consequently, the share of the scheme's liabilities in respect of the Company's employees and former employees, and the assets backing those liabilities, has been estimated.

An assumption for expected return on assets is no longer required due to the updates to UK GAAP.

The following table sets out the key FRS 102 assumptions used for the scheme.

Assumptions	**31 Dec 2015**	**31 Dec 2014**
Discount rate	3.8% pa	3.6% pa
Retail Prices Index inflation	3.1% pa	3.1% pa
Consumer Prices Index inflation	2.1% pa	2.1% pa
Pension increases in payment	3.1% pa	3.1% pa
General salary increases	2.1% pa	2.1% pa
Life expectancy of male currently aged 60	26.6 years	26.9 years
Life expectancy of male aged 60 in 20 years time	28.5 years	28.8 years

24. Pension costs (continued)

The amount included in the balance sheet arising from the Company's obligations in respect of the scheme is as follows:

	31 Dec 2015 £000	**31 Dec 2014** £000
Present value of scheme liabilities	27,473	26,856
Fair value of scheme assets	(21,997)	(20,452)
Scheme deficit	5,476	6,404

The amounts recognised in operating surplus are as follows:

	2015 £000	**2014** £000
Current service cost	942	876
Running costs	78	80
Interest expense	212	184
Total operating charge	1,232	1,140

The following amounts are included in finance income:

	2015 £000	**2014** £000
Running costs	78	80
Net interest on net defined liability	212	184
Total charge to finance income	290	264

The current allocation of the scheme's assets is as follows:

	31 Dec 2015 £000	**31 Dec 2014** £000
Equity instruments	43%	41%
Debt instruments	29%	31%
Property	9%	8%
Multi asset funds	19%	20%
Cash	0%	0%
	100%	100%

24. Pension costs (continued)

Changes in the present value of the Company's share of the scheme's liabilities are as follows:

	2015 £000	**2014** £000
Opening present value of defined benefit obligation	26,856	21,893
Current service cost	942	876
Interest on obligation	961	979
Actuarial (gain)/loss	(967)	3,385
Benefits paid	(319)	(277)
Closing present value of defined benefit obligation	27,473	26,856

Changes in the fair value of the Company's share of the scheme's assets are as follows:

	2015 £000	**2014** £000
Opening fair value of the scheme assets	20,452	17,281
Interest on scheme assets	749	795
Actuarial return less interest Scheme assets	142	1,684
Running costs	(78)	(80)
Contributions by the employer	1,051	1,049
Benefits paid	(319)	(277)
Closing fair value of scheme assets	21,997	20,452

The actual return on the Company's share of the scheme's assets over the year was £891,000 (2014: a gain of £2,479,000).

25. Risk management

The Company monitors and manages the risks relating to the company through internal risk reports which include, but are not limited to the monthly Management Information (MI) pack, the Company's Risk Register and reports prepared as and when necessary.

The Company considers its largest risk exposures to be:

1. Market risk – due to the relative high exposure to equities
2. Insurance risk – due to the uncertainty surrounding the timing, frequency and severity of household claims
3. Pension risk – due to the uncertainty surrounding the obligations to the Defined Benefit Pension Scheme

Fair Value

The fair value measurement used to value financial assets and financial liabilities held at fair value is categorised into a fair value hierarchy as follows:

25. Risk management (continued)

Level 1: Fair value is measured using quoted prices of an identical asset in an active market. An active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions at an arm's length basis.

Level 2: When quoted shares are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the entity can demonstrate that the last transaction price is not a good estimate of fair value (e.g. because it reflects the amount an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted.

Level 3: If the market of the asset is not active and recent transactions of an identical asset on their own are not good estimates of fair value, the fair value is estimated using a valuation technique.

All our financial assets are held at Level 1 and there have been no transfers in or out of this level during the current year.

Market risk

Market risk is the risk of adverse financial impact as a consequence of market movements such as interest rates. Market risk arises due to fluctuations in both the value of the assets held and the value of liabilities. Risk is managed in line with the Company's risk appetite.

The Company has established policies and procedures in order to manage market risk and methods to measure it.

Equity risk

As disclosed in Note 12, the Company has an investment portfolio that is mainly equity based. At the year-end we held £35.413 million (2014: £23.144 million) in equities or equity based investments. Under Solvency II we are required to hold capital amounting to £13.073 million (before portfolio diversification benefits) in respect of these assets in recognition of a potential fall in market value.

Interest rate risk management

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk from movements on financial investments that have a fixed interest rate. As the amount of financial investments exposed to this risk is £1.456 million the Board does not consider this to be a significant risk to the Company.

Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts owing in full when due. Areas where the Company is exposed to credit risk are:

- Reinsurers' share of insurance liability and amounts due from reinsurers in respect of claims already made
- Amounts due from policyholders
- Deposits held with banks

25. Risk management (continued)

The carrying amount of financial and reinsurance assets represent the Company's maximum exposure to credit risk. There are no loans and receivables or insurance debtors due past 90 days and therefore none are considered impaired. No collateral is held in respect of any financial assets or liabilities.

The Company monitors the credit risk in relation to its investment portfolio and reinsurance programme by monitoring external credit ratings for the investment and reinsurance assets held.

Reinsurance assets are reinsurers' share of outstanding claims and IBNR and reinsurance receivables. All reinsurers on the household programme are contracted to keep a credit rating of A- or better. These are allocated below:

	AAA 2015 £000	**AA 2015** £000	**A 2015** £000	**BBB 2015** £000	**BB 2015** £000	**B 2015** £000	**CCC * 2015** £000	**Total** £000
Debt securities	1,601	9,430	2,983	1,393	37	1,252	357	17,053
Other investments	653	3,090	6,555	21,328	762	137	1,350	33,875
Deposits	-	-	2,001	-	-	-	-	2,001
Cash and cash equivalents	-	1,116	1,670	3,184	-	-	-	5,970
Reinsurance receivables	-	506	1,697	-	-	-	2,270	4,473
	2,254	14,142	14,906	25,905	799	1,389	3,977	63,372

* includes unrated

Liquidity risk

Liquidity risk is the risk that the Company cannot meet its obligations associated with financial liabilities as they fall due. The Company has in place a liquidity management framework for the management of the Company's requirements.

The Company is exposed to liquidity risk from client insurance contacts. With regard to a catastrophic event there is liquidity risk arising from the timing difference between claim payment and recoveries from reinsurers. All claims are considered to be payable within 1 year from the balance sheet date, albeit we recognise some claims may in practice take longer to settle.

The Company has sufficient funds to cover insurance claims and in practice most of the Company's assets are marketable securities which can be converted into cash when required.

This is not considered to me a significant risk to the Company.

Insurance risk

The Company accepts insurance risk through its insurance contracts. The Company is exposed to the uncertainty surrounding the timing, frequency and severity of claims under these contracts.

The Company manages its risk via its underwriting and reinsurance strategy. Pricing is based on assumptions made by looking at trends and past experiences. Exposures are managed by having documented underwriting limits and criteria. Reinsurance is used to reduce the effect of potential loss from individual large losses or events.

25. Risk management (continued)

At the year-end we are required to hold £10.997 million in capital under Solvency II in relation to Insurance Risk.

Assumptions and sensitivities

The risks associated with the household insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company uses several statistical and actuarial techniques on past claims development experience. This includes indications such as average claims cost, ultimate claims numbers and expected loss ratios. The key methods used by the Company for estimating liabilities are:

- Chain Ladder
- Expected loss ratio
- Benchmarking

The Company considers that the liability for claims recognised in the Balance Sheet is adequate but actual experience will differ from the expected outcome. In order to mitigate this risk, the Company holds a prudential margin of reserves above the Best Estimate.

We have carried out some sensitivity tests on the actual results for the year ended 31 December 2015 and these are set out below.

	Underwriting Profit	
	2015	**2014**
	£'000	£'000
5% Increase in loss ratios		
Gross	1,020	1,011
Net	1,020	1,011
Weather event in UK – Industry loss £250 million		
Gross	2,500	2,500
Net	2,000	2,000
5% Increase in expenses	514	481

Claims development tables

The following tables show the development of claims over a period of time on both a gross and net of reinsurance basis. FRS 103 requires that claims development shall go back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claims payment, but need not go back more than ten years.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2015

25. Risk management (continued)

Analysis of claims development – gross

	2015	2014	2013	2012	2011	Total
	£000	£000	£000	£000	£000	£000
Estimates of ultimates						
End of accident year	10,121	9,471	10,633	13,254	11,321	
One year later		8,854	9,502	11,842	10,353	
Two years later			9,324	11,214	10,364	
Three years later				11,390	10,447	
Four years later					10,955	
Current estimate of ultimate claims	10,121	8,854	9,324	11,390	10,955	
Cumulative payments to date	(4,043)	(7,193)	(8,087)	(10,091)	(9,853)	
In balance sheet	6,078	1,661	1,237	1,299	1,102	11,377
Liability in respect of earlier years						913
Liability in balance sheet						12,290

Analysis of claims development – net

	2015	2014	2013	2012	2011	Total
	£000	£000	£000	£000	£000	£000
Estimates of ultimates						
End of accident year	9,497	9,027	9,560	11,273	9,053	
One year later		8,593	8,384	9,716	7,954	
Two years later			8,064	9,335	7,938	
Three years later				9,165	7,698	
Four years later					7,640	
Current estimate of ultimate claims	9,497	8,593	8,064	9,165	7,640	
Cumulative payments to date	(4,040)	(7,149)	(7,727)	(9,053)	(7,483)	
In balance sheet	5,457	1,444	337	112	157	7,507
Liability in respect of earlier years						310
Liability in balance sheet						7,817

25. Risk management (continued)

Pension risk

As disclosed in Note 24, the Company is a participating employer within the UNISON Staff Pension Scheme. This is a multi-employer Defined Benefit pension scheme and as such our financial commitment to the scheme can vary significantly over time and we are dependent on a significant range of variables such as investment performance, longevity, interest rates, inflation and retirement ages.

However, the highest impact single risk facing the Company relates to the covenant of the other participating employers within the scheme. In the unlikely event of the insolvency of another employer, liability for the deficit could fall on the company.

26. Explanation of Transition to FRS 102 and FRS 103

This is the first financial year that the Group and Company have presented their financial statements under Financial Reporting Standard 102 and 103 (FRS 102 & 103) issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under previous United Kingdom GAAP were for the financial year ended 31 December 2014 and the date of transition to FRS 102 & 103 was therefore 1 January 2014. As a consequence of adopting FRS 102 & 103, a number of accounting policies have changed to comply with these standards as described in the notes to the reconciliations below.

Reconciliation of equity

	At 1 Jan 2014 £000	**At 31 Dec 2014** £000
Equity reported under previous UK GAAP	33,957	34,277
Adjustments to equity on transition to FRS 102 & 103:		
1. Valuation of bonds	(73)	(1)
2. Short-term compensated absences	(30)	(47)
3. Tangible and intangible fixed assets	-	-
Equity reported under FRS 102 & 103	33,854	34,229

Reconciliation of profit and loss for 2014

	2014 £000
Surplus for the year reported under previous UK GAAP	320
Adjustments to equity on transition to FRS 102 & 103:	
1. Valuation of bonds	72
2. Short-term compensated absences	(17)
3. Tangible and intangible fixed assets	-
Surplus reported under FRS 102 & 103	375

26. Explanation of Transition to FRS 102 and FRS 103 (continued)

Notes to the reconciliations:

1. Valuation of bonds - The Group previously recognised investments in corporate bonds at market value, with revaluation gains or losses being credited or charged to profit and loss in the period the gains or losses occurred. Interest income was accounted for on a receivable basis. FRS 102 requires that such investments are valued at amortised cost using the effective interest method.

   Accordingly, at the transition date, the unrealised losses of £100,000 on corporate bonds have been removed and have been replaced with cumulative amortisation of £113,000, resulting in a reduction of £13,000 in the value of other financial investments. The interest accrual of £60,000 in respect of corporate bonds has also been removed. The net effect on profit and loss brought forward in respect of these adjustments is therefore a reduction of £73,000.

2. Short-term compensated absences - Prior to applying FRS 102, the Group did not make provision for holiday pay earned at the balance sheet date for service rendered up to that date. FRS 102 requires the cost of short-term compensated absences to be recognised when employees render the service that increases their entitlement. Consequently, an additional accrual of £37,000 at 1 January 2014 has been made to reflect this, together with the recognition of accrued income of £7,000 where such costs would be recovered from a third party.

3. Prior to the introduction of FRS 102, the Group classified software development costs as tangible fixed assets. At transition, these assets have been reclassified as intangible assets. The net book value of these assets has not changed as a result of this reclassification.

The Group has elected to take advantage of the exemption permitted under FRS 102 section 35.10(p) in relation to lease incentives upon transition, and accordingly, no adjustments have been made for lease incentives where the term of the lease commenced before 1 January 2014.